

**A SYNOPSIS OF
“REASSESSMENT OF SUPPORT FOR ARTS
ORGANIZATION RESOURCES”**

**A COLLOQUIA SERIES HOSTED BY
THE NATIONAL ENDOWMENT FOR THE ARTS**



**SUMMARY
PREPARED BY
THE AMERICAN ARTS ALLIANCE
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INTRODUCTION

During the months of May and June, the National Endowment for the Arts (NEA) conducted a series of nine colloquia that were designed to reassess the NEA's Planning and Stabilization category by examining the current atmosphere of support for arts organization resources. Moderated by Chairman Bill Ivey, these seminars took a sustained, comprehensive look at the issues facing nonprofit arts organizations today and the trends that are shaping their future. At the agency's invitation to join NEA staff and other leading arts organizations, the Alliance attended each of the nine colloquia, which were hosted at the NEA's offices in Washington.

In order of occurrence, these colloquia examined the following issues:

- **Organizations and the future**
- **Audiences of the future/Building community ownership**
- **Information and technology**
- **State and local funding partners**
- **Innovation and entrepreneurship**
- **Life cycles and critical junctures**
- **Asset allocation and facilities development**
- **Leadership development and capacity building**
- **Capitalization and development strategies**

This booklet contains synopses, written by the American Arts Alliance, of each of the nine seminars. Each summary is divided into three sections: a description of the participating panelists, including their qualifications and achievements; highlights of the panelists' presentations and roundtable discussions; and a brief summary of the key lessons learned in each session. We hope our readers find this report of value. If you have any questions or comments, please contact:

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EXECUTIVE SUMMARY

During the summer of 1999, the National Endowment for the Arts (NEA) hosted a series of colloquia to explore how arts organizations achieve and maintain institutional health. The series was hailed as an important part of the endowment's efforts to reassess its Planning and Stabilization category, in order to formulate new endowment initiatives to help arts organizations thrive in the coming century.

Leaders from prominent arts organizations, renowned business authorities, CEOs, authors and other experts convened for 9 sessions to share their experiences and offer their advice on the most effective stabilization techniques for arts organizations. Participants offered many general comments and suggestions for arts organizations to consider in terms of creating and sustaining a healthy organization.

The NEA was encouraged by experts in both the for-profit and nonprofit sectors to foster innovation, risk-taking and entrepreneurship in arts organizations, all of which enhance organizational performance, as well as artistic output. Van Romans of Walt Disney Imagineering explained that all the members of his creative team approach each idea as if for the first time, adopt the point of view of the audience, and ensure that all members of the creative team are equal partners in the flow of ideas.

A major theme throughout the series was a discussion of ways that the NEA and other funding agencies can help stabilize arts organizations as well as ways that arts organizations can learn to stabilize themselves.

In discussing resource support for arts organizations, panelists noted the difference between technical assistance programs, which focus on building capacity in one or more specific functional areas, and organizational development programs, which focus on advancing the organization as a whole. When grant making agencies decide to support arts organizations in either of these areas, several grant making experts noted that just providing financial support is not always the solution. Some types of funding are more conducive to a healthy life cycle than others and sometimes a large amount of money may even hurt an organization that has no clear purpose for the money.

Characteristics of a healthy organization:

- A healthy arts organization possesses identity and purpose; strong leadership; excellent programming; effective management of resources; and a strong relationship with the audience and community.
- Critical junctures in an organization's life cycle include founder transition; introduction of professional management staff; shared ownership; understanding an economic model; and balancing an economic model with artistic integrity.

- The stages of an organization's life cycle are idea, start up, growth, established, decline, terminal and turnaround. Ideally, the organization maintains a cycle between growth and established. An organization in decline may make the decision to push for turnaround or to fold. The individual entities in an organization – board of directors, artistic director, founder, and administrative staff – should all be in sync at all stages of the life cycle.

Learning from Successful Entrepreneurs:

Panelists with experience in the private sector suggested that non-profit arts organizations take some cues from the for-profit realm in re-examining planning and stabilization issues. For example, for-profit entities accept risk as an inevitable part of business, and arts organizations should learn to do the same. Panelists also considered flexibility and the willingness to accept change very important to an organization's stability. Successful entrepreneurs should do the following:

- Be willing to do or to acquire whatever it takes to achieve goals.
- Adopt principles that are conducive to innovation, including commitment, clarity of purpose, collaboration, concept and courage.
- Undertake research, and develop innovative ways to understand and please an audience.
- Collaborate with other nonprofit institutions to implement innovative marketing strategies.

Using Technology:

Technology was considered to be a key medium through which arts organizations can access and connect with other arts organizations, non-arts groups and the public, especially if they:

- Understand the importance of technology and learn to use such tools as e-mail and the world wide web.
- Create a support network between funders, nonprofits, and technical assistance providers that encompasses open systems, fair exchange, technology transparency, and fair compensation for tech-savvy employees.
- Develop benchmarks and best practices for the use of technology in nonprofits.
- Participate in policy issues surrounding the Internet and the developing Internet II.

Financial Stability Lessons from State and Local Arts Agencies:

- State and local arts agencies are utilizing cultural trusts as an effective tool for enhancing the stability of their own public agencies and their long term ability to fund arts organizations.

Cultural trusts can accommodate a state arts agency's long-term funding plans that may not fit into the regular budget and also allow these agencies to supplement their incomes without abandoning traditional funding sources.

- Funding for cultural trusts and endowments can be secured from a combination of public and private resources, including legislative appropriations, private foundation support, corporate donations, special taxes, and individual donations
- Cultural trusts can be used to support endowment funds for arts organizations; individual artist fellowships; support for current programs and administration of the state arts agency; debt reduction for arts organizations; capital reserves for arts organizations; or operating support for arts organizations
- There are other means of stabilizing local arts organizations, such as the Arts Incubator program in Arlington, VA, which helps artists mobilize untapped community arts resources and facilitate self-sufficiency.

Facilities Development and Enhancement:

During the session on facilities development, it was acknowledged that this issue can cause financial instability in any organization, regardless of size or budget.

- Arts organizations can overcome hurdles in the process of facilities development with serious broad-based planning and close collaboration between strategic, financial and physical aspects.
- Arts facilities developed as part of urban renewal projects should reflect the diversity and individuality of the community.
- Agencies such as the Cultural Facilities Fund can help arts organizations plan an involuntary move.
- Bond issues may be an effective way to help large arts organizations creatively manage debt finance and finance expensive projects.
- Capital can be defined in three ways: 1) net worth/net assets; 2) money available to invest in an organization's purpose; 3) equity vs. debt. There are different types of capital: working capital, which should constitute 10-30% of an organization's budget; program capital, for which funds are earned to be spent; and endowment capital, which should ideally be 200-500% of an organization's operating expenses.

What grant makers should consider:

Marion Godfrey, senior program director for the Pew Charitable Trusts suggested that grant makers re-evaluate the way they appropriate grants, because lack of money is rarely the root of an organization's problem, and for weak organizations, the goal of organizational health is never actually realized through traditional grants.

- Arts grants should reward strength, rather than manage weakness.
- Grant makers should distinguish between bolstering an organizations capacity building by technical assistance programs which focus on building capacity in one or more specific functional areas, and organizational development programs which focus on advancing the organization as a whole.
- Coaching is much more effective than consulting when helping arts organizations to develop leadership and build capacity.
- Leadership development is most effective in times of leader transition; true leaders do not solve all the problems, instead they show others how to solve them together.
- Grant makers should re-evaluate the way they appropriate grants; lack of money is rarely the root of an organization's problems, although it is usually the first factor to be blamed. What is more likely is that funds or ill-matched, poorly timed or too hard to access.

Improving the Public Image of the Arts:

On a general level, panelists agreed it was time that the nonprofit arts world redefine its image, in order to shift the common perception of arts funding as "charity" to the idea of arts funding as an investment in the future. This shift will require that arts advocates downplay the arts' economic impact, which is negligible in comparison to other sectors, and instead emphasize the unique impact of the arts on other entities in the social sector, including the arts' abilities to transcend cultural boundaries.

To redefine the arts' image in the public eye, panelists suggested that individual arts organizations implement targeted community outreach programs and make deliberate efforts to know and understand their respective audiences.

- Emphasize the broad unique benefits that the arts provide, rather than focusing on economic impact when discussing funding issues. Provide examples specific to your local community and audiences.
- Employ open systems of communication in the arts sector-- between arts organizations and other nonprofits and reach out to the for-profits sector for suggestions and advice. Do not be afraid to ask for help.

- Implement spending policies to encourage financial stability without risking goal displacement. Aim for a perfect balance between financial health and optimum artistic freedom.

Summary of Keys to Success:

- Accept risk as inevitable.
- Alter structure to adapt to change.
- Require flexibility from employees.
- Form effective partnerships within the community.
- Implement outreach programs.
- Seek alternative funding sources to gain greater artistic freedom.
- Know your audiences and give them what they would enjoy.



At the conclusion of the series, the NEA discussed the colloquia at the most recent meeting of the NEA's National Council on the Arts. The NEA shared with council members what the endowment had gleaned from the series and what it now sees as the key roles for the NEA regarding planning and stabilization issues:

- to provide arts organizations with a strategic combination of services and grant funds
- to provide arts organizations with access to capital
- to partner with the philanthropic sector, corporations, and/or private donors
- to articulate the social impacts of the arts
- to provide equal access to information about the arts
- to convene all parties interested in arts advocacy
- to showcase best practices
- to influence public policy

ORGANIZATIONS AND THE FUTURE

MAY 14, 1999

- ❖ **What** do successful nonprofit organizations have in common with successful organizations in other sectors (i.e., other nonprofits and small businesses)? How can other arts organizations benefit from the lessons and examples of these other sectors?
- ❖ **How** does the arts and culture sector contribute to “healthy communities?”
- ❖ **How** does innovation in artistic vision and programming affect organizational structure and resource allocation?

PANELISTS

JOE COATES, president and founder of Coates and Jarratt, a firm that has produced research studies of the future of technology, business, and government.

MICHAEL GALLIS, principal of Michael Gallis Associates, a strategic planning and design firm, The Gallis Investment Group, an information services company for real estate and institutional investments, and GWI Property Resource Group, a real estate brokerage firm offering services in strategic site acquisition and land utilization analysis.

BRUCE KOGUT, professor of management at the Reginald H. Jones Center for Management Policy, Strategy and Organization at the Wharton School, University of Pennsylvania

STEFAN TOEPLER, research associate at the Comparative Nonprofit Sector Project at the Institute for Policy Studies at John Hopkins University, coordinating research efforts focusing on Eastern and Central Europe.

SUMMARY

The arts community would do well to examine the trends and challenges facing the nonprofit sector in the 21st century as the sector gets reinvented by changing economics, demographics and social trends. While the nonprofit sector will likely be supported by demographics (including an aging population and an increase in leisure expenditures) that will cause an increase in the demand for nonprofit services, nonprofit organizations will also have to overcome several obstacles. The financial strain already felt by many nonprofit groups will increase if cutbacks in federal support continue. The sector may find itself becoming more dependent on fees, charges, and other earned

income to combat the decline in federal funding, which private philanthropy has failed to replace. As the sector becomes more businesslike in its transactions, and more dependent on commercialization to stay viable, it risks losing the trust of the public, which has already sunk to a level just slightly higher than public trust in government agencies.

The distinguished panel for the series' first colloquium examined the changing face of the workplace and the general trends already being seen within organizations. According to Bruce Kogut, the following are a few of these trends:

- Productivity is rising steadily but wages have remained flat, except for top earners.
- Employers and employees alike expect less loyalty from each other because the era of downsizing has broken the links between the two.
- Labor markets are tight and employers frequently leave for better jobs.
- Technology has revolutionized the workplace; Silicon Valley has brought great wealth and a large market for creativity to the U.S.
- The organization of technology firms has shown the importance of networking - work is project based; competition is encouraged within the network; and open lines of communications are established within the network, which encourages innovation.

The question is how arts organizations can deal with these trends while at the same time convincing the public and legislators that arts funding is crucial. Joe Coates recommends that arts advocates not continue to use economic impact as the main argument for continued funding. Although the arts do contribute a substantial amount of money to the economy, its impact is negligible when compared to other sectors, such as transportation. The best method, proposed Michael Gallis, is to demonstrate the impact of the arts on other entities in the social sector. According to Gallis, who is often brought in as a consultant by cities who want to be more economically competitive, discussions of revitalization always revolve around huge financial issues, and the arts are seldom mentioned. Often, Gallis brings the arts into the discussion not by stressing their financial importance, but by demonstrating the crucial role of the arts in society and how their effects permeate and improve all aspects of public well-being.

A few years ago, Gallis was brought in as a consultant by the city of Rock Hill, South Carolina, which was struggling with a high unemployment rate. The city was also trying to raise enough money to build an expensive redwood sign in front of its industrial park to encourage business. Gallis convinced the city instead to spend even more money and create an arts center that would serve as a "gateway to the city." Despite public skepticism and disbelief, the arts project helped the city build a strong, unique civic identity. The city's culture became such a draw that several international companies moved to the city, thus drastically reducing the local unemployment rate. In short, the city of Rock Hill solved its economic troubles by linking the city's art and culture to other social benefits.

Education advocates have been successful in this way by not stressing education's direct economic impact, but rather by demonstrating how a good education fosters a superior competitive workforce.

The arts community should follow education's lead and build a new conceptual framework, because social capital has meaning only through the linkage of ideas. While the benefits of the arts are somewhat more intangible than education's benefits, still the arts provide benefits to society that no other sector can provide. Gallis suggests that arts organizations play up the link between arts and the notion of quality. As an example, Gallis recounted a conversation he once had with an Italian industrialist, who told Gallis that although he bought all the parts for his products in the United States, he assembled the final products in Italy. When asked why, the man responded, "Because we had the Renaissance." In other words, because Italians have such a deep understanding of art, the society is permeated with the notion of quality. The manufacturer didn't believe that any other culture could understand this notion well enough to make a product to the right standards. If arts organizations can link the effects of arts to phenomena such as these, which only the arts can produce, they will be much more successful.

One quality unique to the arts is their ability to move across boundaries. Not only do the arts cross boundaries in the financial sector, for example, people will pay to see the arts that they like, regardless of region or sector, but the arts also transcend cultural boundaries. This may have a great impact on society with the emergence of a global economy. In a country such as the United States, which is diverse, but not international in its thinking, the arts have the potential to play a huge role in the re-evaluation of America's place in the global economy.

Partnerships may enable arts organizations to better deliver a message about the benefits of the arts, because history has shown that successful endeavors employ open systems. For example, the United State has consistently developed technology superior to Russia, because American companies develop and utilize open lines of communication to share information. Joe Coates suggests that we establish an open relationship with the business and industry sector to explore the potential art in industrial products. This process may demonstrate the pervasiveness of art in everyday life.

One challenge facing arts organizations in re-evaluating financial stability is to determine how to move away from the common perception of arts funding as charity to the idea of arts funding as an investment in the future.

Another challenge will be to question whether an investment in an affiliated commercial enterprise is worth the drawbacks brought on by commercialization. Revenue generated from commercial products may buy financial independence, but at what price? For nonprofit organizations, the worst drawback to commercialization is goal displacement. If an arts organization is continually striving toward a financial end, it may lose sight of its original goals. As an example, Stefan Toepler points out the growing number of museums that rely almost entirely on catalog and gift shop sales. In placing its financial stability in commercial products, an art museum may find itself putting more energy into stocking the store than putting art on the walls.

LESSONS LEARNED

To strengthen the nonprofit arts sector for the future, arts organizations should:

- ★ **Emphasize the unique public benefits that the arts provide, rather than the arts' economic impact, when discussing funding issues.**
- ★ **Employ open systems of communications in the arts sector and between arts organizations and other nonprofits.**
- ★ **Implement spending policies to encourage financial stability without risking goal displacement.**

AUDIENCES OF THE FUTURE/BUILDING COMMUNITY OWNERSHIP MAY 21, 1999

- ❖ **How** can arts organizations stabilize themselves and enhance their effectiveness by integrating themselves into their communities? How can partnering or collaborating with other organizations in the community increase an organization's effectiveness and ability to take risks?
- ❖ **How** can arts organizations develop and sustain relationships with targeted segments of its community? Once an organization has presented or produced an event to attract a group that has not been a regular constituency, how can it sustain the involvement of this group on a
- ❖ **How** do arts organizations deal with the frequent challenges of addressing community needs, opportunities, and expectations without diminishing their focus on their core business and overextending their staffs?

PANELISTS

ARNOLD APRILL, executive director of the Chicago Arts Partnerships in Education, a network of 23 Chicago Public Schools, 35 professional arts organizations and seven community organizations dedicated to co-planning whole school improvement through the arts.

JUANA GUZMAN, director of the Chicago Neighborhood Tours for the Department of Cultural Affairs.

DAVID HALEN, concertmaster of the St. Louis Symphony and former member and assistant concertmaster of the Houston Symphony Orchestra.

HAL KING, managing partner of King, Brown and Partners, Inc., a full service market research firm based in San Francisco that provides strategic marketing research to many of America's most respected Fortune 100 companies.

SUMMARY

The relationship between arts organizations and their audiences is no longer a matter of "if we show it, they will come." The arts and entertainment industry has exploded, leaving consumers to choose from a glut of new media and venues, while at the same time raising audiences' expectations and making it harder to elicit the desired "wow" reaction.

We are about to undergo a revolution in voice, data, sound and video technology. In just a few years, we will see “full digital” households that will be able to access arts and entertainment like never before. A grandmother will be able to see her grandchild perform in a school play 1000 miles away. A theatergoer in New York will be able to watch the opening of a play in London on a screen in his or her living room.

According to Hal King, a market researcher for enterprises that serve changing markets, these issues are forcing arts organizations to face some very common problems concerning their community status: how to compete against a growing variety of alternatives; how to recognize new competition; and how to understand the nature and needs of modern audiences.

However, despite recent booms in technology and the resultant threats to the sustenance of the live performing arts, society’s demand for the arts will never fade away -- it is too much a part of human nature. Rather than accept the eventual demise of their audiences, arts organizations should re-evaluate their place in their community and adjust to the changing times.

David Halen, concertmaster of the St. Louis Symphony Orchestra, began thinking about community ownership and re-examining the symphony’s relationship to its audience when the city voted against placing the orchestra in the same tax bracket as other local cultural institutions like the zoo and the art museum. Halen discovered that although the community valued the orchestra, they did not consider it an integral part of the city.

In assessing the orchestra’s financial stability, Halen learned another interesting fact: nearly all of the symphony’s regular subscribers had played a musical instrument at some point, whether professionally or as a hobby. What resulted from this discovery was the creation of a partnership between the symphony orchestra and the local music schools. By assigning players to local music schools for service credit, the orchestra hopes to increase the number of students who play a musical instrument to 10,000 by the year 2001, thus fostering a future audience for the symphony.

Other outreach programs implemented by the St. Louis Symphony Orchestra strive to reach underserved audiences and to dispel the notion of the symphony as a plaything for the rich. In one such program, Halen and several other symphony players travel to the area’s many ethnic churches, which, for many, is an introduction to a new type of music. The symphony’s outreach programs have motivated many of the city’s outlying areas to form boards for the purpose of delivering a wider variety of artistic programs to these communities.

Arts activist Juana Guzman has also utilized coalitions and outreach programs to bring arts to the communities of Chicago. As director of the Chicago Neighborhood Tours for the Department of Cultural Affairs, Guzman formed partnerships with tour guides, corporate sponsors and city agencies to create a program that currently conducts tours to more than 60 different cultural groups in and around the city. These tours create awareness and enhanced economic opportunities for Chicago’s diverse communities. The program was made possible by empowerment zone funds that Guzman

rallied for as part of the City of Chicago's Cultural Diversity Program. The city's financial support of the program enabled other partnerships to be forged on this foundation; for example, upon seeing the city's endorsement, local corporations were more willing to support the program.

The program has become very successful, but there were many roadblocks that Guzman faced along the way. The city of Chicago is very divided by its communities and it was difficult to organize people to be focused and action-oriented. Creating an effective team meant that Guzman had to teach confidence building, consistency, work assessment, and streamlining. Working with other cultural groups was also a challenge, as Guzman's group struggled to enhance the program through partnership without losing its identity.

As was the case for Chicago Neighborhood Tours, partnerships can be the key to a successful endeavor. Moreover, according to King, what organizations attempt to accomplish in a collaboration is not as important as how the two fit together. Arnold Aprill, executive director of the Chicago Arts Partnership in Education, suggests that any coalition should first take a trial run to see if it actually works. Although a collaboration seems great in theory, to make it work in reality requires members who are action-oriented and representative of the people, and who can work together to articulate criteria for the coalition's success.

Guzman and Halen's journeys are perfect paradigms of King's theories on the adaptive changes that arts organizations need to make. The nonprofit world has not yet developed effective marketing strategies, but will need to do so in order to retain and build an audience in an increasingly competitive environment. King suggests that audience building and community ownership will require a shift in strategic perspective whereby arts organizations become adaptive enterprises. The adaptive enterprise is one that accepts risk, alters structure, values learning, and rewards performance.

Before these strategies can work, however, an organization's culture must change. Changing the culture means first developing a bias toward action, without destroying beneficial cultural values. Simple as it may sound, successful companies are those that constantly do and try things, regardless of their efficiency; unsuccessful companies consistently fail to "do things." In this capacity, nonprofits should take a lesson from for-profit companies, who accept risk as an inevitable part of business.

A successful arts organization needs to be able to adopt new strategies as audiences and competition change, and can only do so if its employees are willing to implement change. Therefore, a progressive organization must be willing to let go of employees that refuse to change. On a more encouraging note, an organization must also recognize those employees that are adaptive and progressive and reward this productive behavior. Included in successful staff management is the elimination of what Guzman refers to as "founder's syndrome." Too often, an organization will mentor current staff without giving thought to the next generation of workers that will one day take over. An arts organization must be careful to invest in structures within the organization that lend themselves to a smooth transition for the next generation of leaders.

Arts organizations must also move away from the traditional nonprofit way of thinking. Instead of focusing on financial make-up, nonprofits need to look at strategy and composition. There are other forms of capital besides financial: intellectual, social and cultural, among others. If arts organizations function with a constant eye on the bottom line, they run the risk of goal displacement. The reason that most arts organizations are initially established is to deliver art to an audience, so the audience must always be a top priority. This means creating and cultivating an open line of communication between the organization and the audience. An arts organization's investment is lost if too much time is spent trying to balance numbers or maintain a status quo rather than getting to know its audience. To compete with other capitalized voices, arts organizations must study audience demographics and follow up with customers by contacting them personally. The bottom line is, if you know your consumers and give them what they want to see, they will keep coming back for more.

Although advertising is commonly thought of as the best way to reach consumers, generally the things that need advertising have the least intrinsic value. In the arts world, word of mouth is a more desirable method of reaching an audience than advertising. Some arts professionals have developed a cynic view toward advertising. Aprill suggests that instead of using hype to engage the community, we should educate the consumer to recognize quality art. Advertising, however, may still fill a necessary niche in reaching out to a wider demographic group that may be overlooked in other outreach attempts.

LESSONS LEARNED

In order to build audiences and successfully integrate themselves into communities, arts organizations need to:

- * Accept risk as inevitable.**
- * Alter structure to adapt to change.**
- * Require flexibility from employees.**
- * Form effective partnerships within the community.**
- * Implement outreach programs.**
- * Seek alternative funding sources to gain greater artistic freedom.**
- * Know the audience and give them what they want to see.**

INFORMATION AND TECHNOLOGY
MAY 24, 1999

- ❖ **What** is the role of technology in sustaining healthy arts organizations?
- ❖ **How** is technology being used creatively to enhance organizational effectiveness?
- ❖ **To what extent** are arts managers familiar and comfortable with fast-changing technology? What progress or resources exist that can help improve their skills in this area?

PANELISTS

ANNE GREEN, director of grant making programs at the Benton Foundation, which works to realize the social benefits made possible by the public interest use of communications.

ANTHONY RIDDLE, executive director of the Manhattan Neighborhood Network.

DOUGLAS RUSHKOFF, lecturer, social theorist, author of *Ecstasy Club*, *Children of Chaos* and *Media Virus! Hidden Agendas in Popular Culture* and founder of Memes Incorporated, a software development firm that conceived and produced the Electronic Oracle series of programs for HarperCollins Interactive, and the popular CD-ROM, *Cyber Tarot*.

FRED SILVERMAN, consultant in the area of philanthropy and corporate community relations; lead consultant to the National Strategy for Nonprofit Technology; and former senior manager of Apple Computer's Worldwide Community Affairs department.

SUMMARY

Despite its seemingly conflicting agenda, technology is not a natural enemy to the arts. Over the course of history, the vitality of various art forms has been threatened by new inventions and technology, but successful art forms have become the better for it. For instance, upon the invention of photography, painting as an art form did not die out; rather, painters became better because photography gave them a new window through which to view their work.

Although in the modern world technology has created a dichotomy for arts organizations, in which

organizations must strive to preserve and present art while also struggling with growing technological duties, such as maintaining a current website, it is possible for arts organizations to utilize technology in a positive manner that will increase organizational efficiency. Arts organizations, however, will need to make an effort to understand technology and those technological tools which are most conducive to the fortification of the arts infrastructure.

According to Douglas Rushkoff, the lesson that arts organizations should take from an understanding of modern technology is to recognize and avoid the danger in becoming, through technology, an authority or controlling force. Arts organizations should not act as censor or arbiter in the role of arts funder, which is not to say, however, that arts organizations have absolutely no say in the matter. Just as the director of a play can manipulate actors to move in a certain way through strategic prop placement, so too can arts organizations create an environment in which the art forms they wish to cultivate can naturally grow and flourish, and where the things they do not want to grow are unable to take root.

In order to use technology effectively, nonprofits need to understand the impact that technology can have on their work -- that it can help them to do entirely new things, not just teach them how to use new tools to perform the same tasks. Specifically, boards of directors and executive directors should appreciate the value of technology to their organizations, since they are primarily responsible for resource allocation. In addition, a system of information sharing is crucial to help nonprofit organizations learn the current uses of technology, including the Internet, electronic publishing and video conferencing.

Another important lesson from technology, according to Anthony Riddle, is that the newest, most complicated technology is not always the best. Riddle's organization, The Manhattan Neighborhood Network, offers free cable studio facilities and production training to the public to support programming by people who may have never had access to such tools before. He explains that, "many of us view HDTV (high definition television) with disdain. What our mission requires is more access. What HDTV requires is more technicians, more money, more bandwidth. It is an effective attempt to return the voice to the priesthood of money. HDTV stands for the hard disenfranchisement of TV." The best approach to new technology is to understand the benefits of the different technological tools first and then to integrate those tools that best match the needs of the organization and the community.

Armed with the knowledge and mastery of technological tools, arts organizations can be a highly resourceful tool for artists and the community. Technology can help arts organizations with fund-raising efforts, volunteer outreach, advocacy efforts, and civic participation. According to Anne Green, these are some common technological tools that are increasing nonprofits' organizational efficiency:

- **E-mail.** A quick and effective on-line communications tool, e-mail can help board members coordinate fund-raising activities; encourage on-line communication through discussion lists and on-line conference rooms; and distribute information to

a wide audience through on-line publications and classes. This form of communication can be especially vital to nonprofits, because it allows them to readily communicate with their audiences, since often they cannot afford the high cost of mass mailings or other forms of expensive communication.

- **World Wide Web.** Arts organizations can conduct research quicker and easier on the Internet, i.e., identifying foundation resources, locating used hardware and software, and matching organizations with volunteers. An organization with its own web site can also provide visitors with an on-line clearinghouse, a job bank and professional development tools.
- **Tele-commuting.** Employees who can work at home on the computer can save time and money for arts organizations.

The benefits of knowledge and effective implementation of modern technology are evident, yet studies suggest that the nonprofit world is hesitant and ill-informed about the uses and impact of technology. The sector suffers from several fundamental problems, according to a study from the National Strategy for Nonprofit Technology (NSNT): lack of knowledge, fragmentation, turf protection, inadequate investment and lack of skills.

Fred Silverman suggests this is due in large part to a lack of integration of technology throughout the organization. For example, because nonprofits by definition don't always have a lot of money, often only the executive director of the organization will have a computer, or funding only allows for the training of one computer specialist, and all the employees depend on the knowledge of this one person to perform technological tasks. Silverman would rather see an environment where "every staff member at every nonprofit organization uses computers and the Internet as easily as pen and paper, the telephone, or a fax machine. More importantly, they understand technology's potential - having participated in making technology an integral part of their agency's organizational plan - and are excited to test its limits to advance their group's mission."

Successful integration of technology throughout an organization is not a matter of getting more money. Rather, it entails the creation of a network between funders, nonprofits, and technical assistance providers that operate under four guiding principles to create a new way of thinking and of working together to move the sector forward:

- **Open Systems** – projects must be designed so that they can be shared and copied, and so that no one entity owns an idea.
- **Fair Exchange** – the creative atmosphere should be such that organizations will be motivated to share ideas with the assumption of receiving ideas in return.
- **Technology Transparency** – technology will be such a part of daily work and communication that it will be transparent.

- **Fair Compensation** – those possessing technological know-how will be compensated and integrated into the nonprofit organizations they serve.

Specifically, the NSNT has devised a list of eight steps that can change the way an organization utilizes technology. An organization should take the following actions:

1. Create a “nonprofit technology portal” (an online co-op to which all nonprofits can belong to find tools, skills, know-how, ideas and partnerships) on the World Wide Web.
2. Develop tools to help nonprofits and technology assistance providers match the appropriate technology to the individual organization’s needs.
3. Hire employees who are properly trained and motivated to help meet nonprofits’ needs.
4. Develop technology assistance models that incorporate the NSNT’s principles.
5. Establish alternative funding mechanisms that leverage the principles and initiatives of the NSNT.
6. Foster new relationships between the nonprofit sector and high-technology companies.
7. Develop nonprofit-specific technology solutions.
8. Make an effort to connect and reach out to others.

Should the nonprofit sector find it cannot keep up with the revolutions in technology, it should build partnerships and infrastructures that can. Silverman cites some specific examples of tools that can help an arts organization form effective collaborations. For example, there exist several volunteer-based programs that match for-profit technical expertise to nonprofit organizations. There are also nonprofit companies that exist solely to help nonprofits secure better technology. Another growing trend is the “circuit rider,” a technology expert that shares his or her resources among several organizations.

Understanding the tools of technology is also a necessary step to enable arts organizations to participate in policy issues regarding the Internet. As of yet, the arts community has not been at the table of discussion of Internet policy, and with the imminent advent of Internet II, this is an issue that we need to become part of. In addition to all of this, if the arts community wants to affect the big picture concerning the potential of technology to eliminate art as we know it, it should also encourage projects that teach media literacy.

LESSONS LEARNED

In order to effectively use technology as a tool for organizational effectiveness, arts organizations need to:

- * **Understand the importance of technology and learn to use such tools as e-mail and the world wide web.**
- * **Create a support network between funders, nonprofits, and technical assistance**

providers that encompasses open systems, fair exchange, technology transparency, and fair compensation.

- * Develop benchmarks and best practices for the use of technology in nonprofits.**
- * Participate in policy issues surrounding the Internet and the developing Internet II.**

STATE AND LOCAL FUNDING PARTNERS

JUNE 1, 1999

- ❖ **How** effective are state cultural trusts and endowments in enhancing the stability and effectiveness of arts organizations in the states?
- ❖ **What** conditions lend themselves to the establishment of such a trust or endowment?
- ❖ **What** other steps are state arts agencies and local arts agencies taking to enhance the organizational effectiveness of the groups in their area?
- ❖ **How** can the NEA work most effectively with state arts agencies (SAAs) and local arts agencies (LAAs) to enhance the effectiveness and stability of arts organizations?

PANELISTS

PEGGY AMSTERDAM, director of the Delaware Division of the Arts and founding member of the Delaware Arts Stabilization Fund.

JENNIFER SEVERIN CLARK, executive director of the Nebraska Arts Council.

SHELLY COHN, executive director of the Arizona Commission on the Arts.

NORMA KAPLAN, chief of Arlington County (VA) Cultural Affairs Division.

J. MARK SCHUSTER, professor of urban cultural policy in the Department of Urban Studies and Planning at the Massachusetts Institute of Technology.

SUMMARY

In the syllabus for his class at Columbia University Teachers College, entitled “Critical Issues on Cultural Policy,” J. Mark Schuster poses the question, “Who pays?” The question goes straight to the heart of arts funding issues – who should be responsible for funding and stabilizing arts organizations? State and local arts agencies have taken up this question over the course of their

existence, with varying results.

Schuster recalls a now-defunct partnership between the Ontario (Canada) Arts Council and the provincial lottery, called the Wintario Voucher Program, which allowed patrons to use losing lottery tickets as payment toward books, recordings, and admission to performing arts events. This unique attempt to boost funding for arts programs illustrates the ongoing quest of state arts agencies to seek avenues of stabilization of arts organizations, even in the most unlikely of places. Considering the importance of arts organizations to an individual state's arts infrastructure, the search is a high priority. Museums, symphonies, performing arts presenters, and others make significant contributions to their communities. They stimulate the economy, improve the quality of life, expose new audiences to art, and stimulate artists' creativity. To keep arts organizations healthy so that they can continue to bestow these benefits, the search is on for state and local arts agencies to find new funding resources.

State arts agencies are seeking new revenue sources not just to resolve the issue of who should pay, but also in response to current trends in their budgets. Cutbacks in federal grants and legislative appropriations have kindled a desire to cut the ties that bind the health of state arts agencies' to the health of their granting bodies. One very popular and successful solution has been the creation of cultural endowments. Money for these endowments is secured from a combination of public and private resources, including legislative appropriations, private foundation support, corporate donations, special taxes, and individual donations. The principal is then put into long-term investments and the interest income goes to support local arts organizations and programs. As such, cultural trusts can accommodate a state arts agency's long-term funding plans, which may not fit into the regular budget and allow these agencies to supplement their incomes without abandoning traditional funding.

The main drawback to establishing a cultural trust is that, being relatively young, the fate of endowments is hard to predict. There is also an apprehension that, if the endowments become highly successful ventures, states may one day opt to cut out appropriations to state arts agencies entirely, or that state legislators may wish to reclaim or redirect these funds. Nonetheless, as of 1998, 14 states arts agencies had established endowments, three more were in the works, and their combined worth was nearly \$70 million.

All the state trusts in existence, with the exception of Texas, were designed to augment, not replace, each council's current funding sources. Still, even Texas plans to remain a public agency, although its goal is to eventually build the trust so large that the agency will not need to seek future funding from the state legislature. Even in a supplementary role, funds from cultural trusts can fortify a wide range of needs in the arts community:

- Endowment funds for arts organizations
- Individual artist fellowships
- Support for current programs and administration of the state arts agency
- Folklife programs

- Rural arts
- Historic preservation
- Professional development and technical assistance
- Debt reduction for arts organizations
- Capital reserves for arts organizations
- Capital improvements
- Operating support for arts organizations
- Statewide arts awareness campaigns

Currently, the best funded of all the state trusts is the Delaware Arts Stabilization Fund. Peggy Amsterdam, executive director of the Delaware State Arts Council, explains that the stimulus for the fund was provided by constituents who were planning to go to the state legislature individually and ask for line-item funding. Rather than risk time and perhaps their reputation in the eyes of the legislature, the council initiated a collaborative process that has become a model in effective management. Currently, the fund is worth \$21.5 million.

The Arizona Commission on the Arts established its trust fund, Arizona ArtShare, because many of the state's arts organizations were being threatened by bankruptcy. The legislation authorizing ArtShare was signed in 1996 and gave the trust \$2 million for ten years. The trust is funded by the state's commercial amusement tax and is matched by private contributions. Funds generated through ArtShare are used for support in three areas: large institution's cash reserves; development and stabilization of working capital for mid-size institutions; and arts education activity.

The successful establishment of ArtShare was due in part to good timing. When Shelley Cohn and the Arizona Commission on the Arts approached the state legislature about establishing a cultural trust, the local economy was in a state of healthy growth. Consequently, the legislators were open to the idea, particularly because the endeavor did not call for a new tax. In general, the fundamental structure of endowments strikes a positive chord with legislators, especially conservatives, who like the idea of private money going toward funding the arts.

Having a champion in the state legislature doesn't hurt either. Jennifer Severin Clark explains that when the Nebraska Arts Council (NAC) established its endowment to preserve art for future generations in Nebraska, it had strong support from an influential and tireless state senator. As a result, the bill passed in one hour with only one dissenting vote. Thus began the Nebraska Cultural Preservation Endowment Fund, which currently grants 70% of its funds to the Nebraska Arts Council and the remaining 30% to the Nebraska Humanities Council. The goals of the endowment are to distribute funds to build or enhance the endowments of arts organizations, to support arts education, and to enhance infrastructure support. The Nebraska Arts Council has received planning grants from the NEA to help accomplish these goals. So far, the NEA has helped NAC enable nine rural arts organizations in Nebraska to establish endowments.

A unique aspect of Nebraska's cultural endowment allows private donors to earmark contributions for specific organizations, and the money is used as a match for the statewide trust.

This feature ensures a win-win situation for both the trust and its contributors: state arts agencies can tap into individual arts organizations' donor bases, and these donors can continue to see their money go to their personal cause rather than a state-managed trust.

There are other methods beside cultural trusts that state and local arts agencies use to provide support for arts organizations. For example, the Arlington Cultural Affairs Division launched a program in 1990 called Arts Incubator that, instead of giving money to local arts organizations, helps them to maximize untapped arts resources and facilitate self-sufficiency. The program offers artists who invest in Arlington a wealth of needed resources, including facilities (company conference rooms, classrooms, auditoriums), costumes, staff support and expertise, sets, lighting and other incentives.

Arts Incubator has established Arlington as a breeding ground for superior arts programming, guided by an approach that focuses first on the needs of the community and holds that participating organizations will eventually become integral community resources. The program realizes that an essential part of enriching the community's health is enabling all artists to fully realize their artistic visions. In a time when the success of an artistic endeavor is measured in terms of box office figures, many arts organizations cannot afford to take risks. Arts Incubator allows artists to develop ideas based on their merit, not their potential for financial success. The program also affords flexibility to artists at different stages of development by customizing services and funding to each artist and group individually.

Many of the arts organizations that have participated in the Arts Incubator program are now completely self-sufficient. Norma Kaplan remembers the first performance put on by the Washington Shakespeare Company that was staged for only \$90, using the program's resources. The show was a hit, and the company now boasts five years of success and 36 shows in Arlington County. Overall, Arlington has had a 600% increase in arts events over the last six years.

LESSONS LEARNED

- ★ **State and local arts agencies are utilizing cultural trusts as an effective tool to enhance the stability of arts organizations. Cultural trusts can accommodate a state arts agency's long-term funding plans that may not fit into the regular budget and also allow these agencies to supplement their incomes without abandoning traditional funding sources.**
- ★ **Funding for cultural trusts and endowments can be secured from a combination of public and private resources, including legislative appropriations, private foundation support, corporate donations, special taxes, and individual donations.**
- ★ **Cultural trusts can be used to support endowment funds for arts organizations;**

individual artist fellowships; support for current programs and administration of the state arts agency; debt reduction for arts organizations; capital reserves for arts organizations; or operating support for arts organizations. .

- * There are other means of stabilizing local arts organizations, such as the Arts Incubator program in Arlington, VA, which helps artists mobilize untapped community arts resources and facilitate self-sufficiency.**

INNOVATION AND ENTREPRENEURSHIP

JUNE 2, 1999

- ❖ **How** can arts organizations best balance their need for financial stability with innovation and risk-taking in their programming?
- ❖ **What** are some of the most successful examples of entrepreneurship that have been undertaken by arts organizations?
- ❖ **What** entrepreneurial ideas have non-arts organizations, including commercial ventures, undertaken that might be applicable to the arts?

PANELISTS

JERR BOSCHEE, former president and chief executive officer of the National Center for Social Entrepreneurs; former executive for Control Data Corporation; currently launching an international organization to foster social entrepreneurship around the world.

HAL CANNON, founding director of the Western Folklife Center and the Cowboy Poetry Gathering; explores the culture and folk arts of the American West on “The Open Road,” a regular feature on Public Radio International’s weekly program, *The Savvy Traveler*; will serve as artistic director for folklife at the 2002 Olympics in Salt Lake City.

NICOLAS KANELLOS, professor at the University of Houston; founding publisher of *The Americas Review* and the nation’s oldest Hispanic publishing house, and the largest nonprofit publisher of literature, Arte Publico Press; director of a major national research program, “Recovering the US Hispanic Literacy Heritage of the United States.”

VAN ROMANS, director of cultural affairs for Walt Disney Imagineering, responsible for all liaison and creative development between cultural institutions and Disney.

SUMMARY

Nonprofit arts organizations must manage the challenge of striking a delicate balance between financial stability and innovation. They must make enough money to sustain themselves, but not let the pursuit of money become more important than the pursuit of potentially risky artistic ingenuity.

Engineering the tools of entrepreneurship can enable arts organizations to maintain this balance.

Successful entrepreneurs are willing to do or to acquire whatever it takes to achieve their goals, but getting to that point of determination requires fundamental changes and a commitment to forward progress. According to Jerr Boschee, who has made a career out of fostering social entrepreneurship, there are 15 critical success factors to effective entrepreneurship. To be successful innovators, arts organizations will need to integrate these “C” philosophies into their regular modes of operation:

- **Candor** – know your resources
- **Commitment** – implement changes with intent to see them through
- **Cultural Change** - take risks and make the right choices in staff that will benefit the organization’s dedication to development
- **Core Values** – discover the unique values that your organization stands for and will not swerve from
- **Conservative** – be willing to plan and ask for help
- **Clarity of Purpose** – come to a consensus on the purpose of your organization and why you’re doing what you’re doing; define success before you begin to avoid being led astray later
- **Customer Focus** – always focus on “them,” not “us”
- **Core Competency** – build on assets you already have
- **Collaboration** – realize that entrepreneurs, innovators and managers have different roles and skills and should not do all jobs; entrepreneurs are born, not made
- **Concept** – don’t try to be all things to all people, think big but act small
- **Critical Success Factors** – find out what they are to your organization
- **Competition** – find out who you are and how you stand out
- **Cost** – manage it effectively
- **Courage** – making these changes will mean your organization will be under constant scrutiny, so do it only if you really have the passion for it
- **Continue to Care** – ensure that your mission is your first priority

Hal Cannon discovered first-hand the positive effects of entrepreneurship through the success of his Cowboy Poetry Gathering, now in its sixteenth year. This unique event, held each year in Elko, Nevada, failed to attract much of a crowd in its initial years, mainly due to a lack of interest from the town, and a lack of awareness from the rest of the country. In order to reach out to a larger national audience, Cannon harnessed the advertising powers of the Internet. He used Internet banners on websites and downloadable audio clips from past gatherings to attract interested audiences. The awareness campaign was designed to resonate with and attract only those attendees who had a true interest in the Cowboy Poetry Gathering, because it was not Cannon’s desire nor intent to overburden the small town of Elko.

Cannon realized that the more difficult challenge would be to interest the local community, a population of mostly ethnic miners, in the Cowboy Poetry Gathering because they had no vested interest in or personal connection to the event. So he gave them a reason to care. He recruited local

students to learn radio production and photography at the Western Folklife Center. The children helped organize the Cowboy Poetry Gathering, and then brought their parents along to proudly display their work, which resulted in the integral involvement of the community throughout the entire process.

Van Romans takes a similar approach to his work at Walt Disney Imagineering. In designing Disney theme parks and displays, Romans constantly works with these questions in mind: What do Disney's guests understand? How can Disney strike a responsive chord in these guests? For Romans, the key to innovation is approaching an idea through the eyes of the audience and observing the idea as if for the first time. To facilitate these responses, all members of the Disney creative team have equal say in the creative process and there are no set divisions between team members. Writers, story board artists, creative leaders – all parties involved are equal partners in the flow of ideas.

Arts organizations may also look to the private sector for inspiration in innovation. Nicolas Kanellos has utilized innovative marketing and distribution ideas from for-profit companies to foster the success of his publishing company, Arte Publico Press. Among his successful endeavors was the placement of spinner racks of books in several Hispanic supermarkets. The project has been so successful that other non-Hispanic supermarkets are hoping to get involved in the program. Kanellos also engineered a partnership with Continental Airlines to promote bilingual education literacy projects in schools.

Kanellos's ideas are born of a belief that arts organizations have a responsibility to cooperate with the private sector and with other nonprofit institutions for the betterment of the arts community as a whole. He offers several innovative techniques for achieving this goal:

- Create marketing opportunities through partnerships with museum shops; souvenir shops at theaters, symphony halls, cultural, literacy and community centers; book fairs; folk festivals; arts shows; exhibits; catalogs distributed by publishers, museums and music organizations; newsletters; and television and radio stations.
- Require every organization funded by the NEA, NEH and IMLS to devote 10% of shelf and catalog space to selling products by other endowment-funded organizations.
- Require that endowment-funded reviewing mechanisms in all media devote at least 20-40% of their time or space to reviewing endowment-funded or nonprofit products and require them to offer a special discount on advertising to these organizations. For example, too many author interviews, book and film reviews, etc. on public radio support the commercial world much more than the nonprofit world.
- Establish a franchise of stores (“America’s Store” or “The Culture Store”) that would specialize in arts and humanities products from the national culture, including everything from folk art to high art to high tech art. This would be similar to the Museum Shop, which is run by the Metropolitan Museum of Art. The store would be a marketing outlet for

endowment-sponsored publishers, museums, media companies, etc. and would be a leverage point for enhancing the image of the endowments.

LESSONS LEARNED

Nonprofit arts organizations can learn from successful entrepreneurs by:

- * Dedicating themselves to their mission, building on core competencies, focusing on customer satisfaction, implementing effective cost control mechanisms, and having the courage to make changes.**
- * Adopting those principles that are conducive to innovation, including commitment, clarity of purpose, collaboration, concept and courage.**
- * Undertaking research and developing innovative ways to understand and please an audience.**
- * Collaborating with other nonprofit institutions to implement innovative marketing strategies.**

LIFE CYCLES AND CRITICAL JUNCTURES OF ORGANIZATIONS

JUNE 14, 1999

- ❖ **What** is a “healthy” arts organization? What conditions create and sustain healthy arts organizations?
- ❖ **Is there** a general acceptance of the view that growth and permanence are not necessarily desirable goals for all arts organizations?
- ❖ **What** are the special needs of un-institutionalized groups and those fields (e.g. jazz, folk arts, literature) that lack an infrastructure? Is development of an infrastructure always feasible or desirable? Are there ways to improve organizational health without greater institutionalization?
- ❖ **What** conditions have provided the setting for a successful turn-around in arts organizations? In other fields? What factors have proved the major impediments to change? How have successful leaders overcome these?
- ❖ **What** are the critical junctures? How does a staff, in survival mode, take time to understand the critical needs of its organization and plan to meet them?

PANELISTS

DUDLEY COCKE, director of Roadside Theater, producer, stage director and writer; recent international work includes directing the Appalachian company’s innovative performances in the Czech Republic, directing Junebug/Jack for England’s Festival of the American South at London’s South Bank Center, and conducting dance/story workshops at the 1996 international Baltic Dance Festival in Poland.

DAVID GOCKLEY, general director of the Houston Grand Opera, one of the five major opera companies in the United States; former president of OPERA America and former chairman of Houston’s Theater District.

CORA MIRIKITANI, senior program director and director of the arts program at The James Irvine Foundation; former program officer for culture at The Pew Charitable Trusts; worked for 15 years in the nonprofit arts as director of performing arts and film at The Japan Society, managing director for programs at the Japanese American Cultural and Community Center in Los Angeles, and

executive director of the Greater Philadelphia Cultural Alliance; member of the Board of Directors of Grantmakers in the Arts.

SUSAN STEVENS, president and founder of The Stevens Group, a firm specializing in strategic, financial and management advice to foundations and nonprofits; has served on the faculties of the Council on Foundation’s New Staff Institute, the University of Minnesota’s Humphrey Institute of Public Affairs and the Nonprofit Management Program at Carnegie Mellon University’s H.J. Heinz School.

SUMMARY

Every organization, regardless of size, age or capacity exists in a state of flux, whether it be growth or decline, start up or send off, aggregation or dispersion. This does not necessarily imply, however, that the challenges inevitably created by such change are the same for every organization, or that there is a “one size fits all” solution for each challenge. For although organizations undergo the same life cycles, no two organizations move through the cycles at the same pace. In order to enjoy a state of health and stability, arts organizations should understand their life cycles and the individual stages during which organizational health is optimal.

To better understand the impact of each stage in the life cycle, it is important to first define what constitutes a “healthy” arts organization. Cora Mirikitani and The James Irvine Foundation have compiled a list of criteria to recognize healthy arts organizations, as part of the foundation’s Cornerstone Arts Organizations program. The program identifies and supports a cadre of “high performance” arts organizations that are the “cornerstone” of California’s arts and culture. Mirikitani explains that in assessing the health of each applicant, Cornerstone evaluates the organization across five categories of fitness:

- **Identity and Purpose** – Does the organization have a clear sense of who it is, why it exists and what it hopes to accomplish?
- **Leadership** – Is there a leadership vision for the organization? How does the organization manifest leadership qualities?
- **Programming** – Does the organization’s work consistently achieve high standards of excellence?
- **Management of Resources** – Is the organization’s operation well-run and does it have the resources necessary to realize its mission?
- **Audience and Community** – Does the organization have a clear sense of who it serves and the strength of its relationship to the community?

Arts organizations that meet these criteria are considered healthy because they are at a prime stage in their life cycle.

From her experience as a consultant to numerous foundations and nonprofits, Susan Stevens has formulated her own life cycle theory, which includes the following stages:

Idea. This is the first stage of an organization's life. Generally, the stage begins with one person, a founder, who has a vision.

Start Up. This, the second stage, is the most chaotic and energetic of all the stages. At this point, there is not a lot of focus or shape, but it is a time when the organization is closest and truest to its mission.

Growth. This stage begins when the demand for an organization's services is so great that it outstrips capacity. Usually, organizations are not equipped to handle the demand, and the challenge at this stage is to find a niche or establish the organization's forte. This is when organizations "become who they are" and learn not to be everything to everyone. During this time, an organization will start to see some internal conflict and loyalty issues will arise. Another challenge faced in this stage is the transfer of ownership from a founder to a board of directors or other staff management partners.

Established. An organization is in the established stage when it has earned a reputation and all systems are running smoothly. This stage is also characterized by a functioning board of directors and professional staff that share a positive attitude about the goals of the organization.

Decline. An organization enters the decline stage when it focuses more on who it *was*, rather than who it *is* in the community. There are two ways out of decline:

Terminal. If an organization exists only for itself, it will eventually move from the decline stage into the terminal stage and go out of business.

Turnaround. If an organization is committed to making positive changes, it will move from the decline stage into the turnaround stage, which, in effect, returns the organization to the start up stage.

The ideal position in this life cycle is an alternating state of fluctuation between "growth" and "established." The two hardest stages to be in are "growth" and "turnaround." Stevens identifies the critical junctures in this life cycle: founder transition; the introduction of professional management staff; shared ownership; understanding an economic model; and balancing an economic model with artistic integrity.

Dudley Cocke has an analogy for the life cycle of his company, Roadside Theater. He likens the five

stages in the theater's life to a morality play. In his experience, there was **hope** first – an aspiration to create a dramatic theater in a place that had **none**. Next came **will**, when the company found its purpose and toured through 43 states to share its work. The next stage was **competence**, in which the theater began taking on a more varied role in the community, including that of teacher. It was at this point that the company had more **engagements** than it could fulfill and had to make a decision to spin off and create a separate company to meet the demand, or to deepen its current work and diversify the audience. The company choose to do the latter, out of a desire to cultivate a strong constituency. The next stage was **care**, in which the company documented and perpetuated what it had learned. The final stage was **exploration**, in which the company experienced a renewed emphasis on risk-taking.

Cocke learned from overseeing the birth and growth of the Roadside Theater that each stage has its light and shadow -- i.e., there are opposing forces to every positive change. For example, **will** is challenged by **compulsion**, and somehow the two must be reconciled for the greater good of the organization. Cocke also discovered that **no** stage is self-contained, and that at points of intersection, leaders in the organization must be responsible for keeping their eyes on the prize. Facing and overcoming these critical junctures enabled Roadside Theater to continue moving toward its goals.

David Gockley identifies his own critical junctures in the life cycle of the Houston Grand Opera since 1972. For Gockley, these junctures are essential to successfully navigating an organization through its life cycle:

1. Identifying the organization's first visionary professional leader, who most often is a post-founder.
2. Working with the governing body to establish identity.
3. Engaging in the critical division of labor.
4. Formalizing a relationship with performers and technical staff.
5. Building, adapting or adopting a venue that is associated with your art form.
6. Breaking out and re-inventing oneself.

As a result of Gockley's leadership and his effective management of these critical junctures, the Houston Grand Opera has become one of the five major opera companies in the United States. Well known for its risk-taking and presentation of new opera, the Houston Grand Opera is in great demand from the community. Over the years, its budget and staff size have also increased. The company continues to implement innovative programs, including outdoor opera, national radio broadcasts and "plazacasts," which are broadcasts of live opera performances in the plaza of the opera house.

What advice can be gleaned from these and other examples of organizations facing and overcoming critical junctures? A simple but vital recommendation to organizations is not to be alone in a crisis.

It is essential to get the problem out in the open as soon as possible and to develop allies with the capacity to help during a crisis so that the problem can be solved as a team. It's also important to establish a buy-in consensus among team members so that the organization doesn't derail during the growth phase.

As an organization moves through its life cycle, it is also crucial that all the organization's employees are in the same stage at the same time. A life cycle is multi-dimensional: as the organization as a whole moves along one track, the individual components of the organization move along their own separate tracks. Ideally, the motions of all these entities – the board of directors, artistic director, founder, and administrative staff -- should be in sync so that the organization can move forward as a whole in a fluid manner.

The importance of money in the course of an organization's life cycle should not be underestimated. So many organizations owe who they are to what kind of funding they receive. For example, general operating support, as opposed to project support, can give an organization a lot more time to reflect on who they are as a whole.

Self-awareness is crucial to an organization entering "the zone" between start up and growth. Having the resources to carefully examine the consequences of all its actions and then to narrow its focus is critical. Forced change brought on by financial pressures can stunt this process.

Dudley Cocke stresses the importance of public funding for the arts in helping arts organizations successfully navigate their life cycles. The NEA was the first agency to fund Roadside Theater, even before the Kentucky Arts Council. In the company's initial years, money from the NEA's expansion arts program enabled performing arts presenters to take new risks. Recent cuts in this funding have slowed the company's development and forced Roadside Theater to stop taking as many risks, illustrating the impact of this type of support.

Funding cuts may have slowed Roadside Theater, but the company is still charging ahead. This raises the question of whether all organizations should continue to grow and seek permanence in the face of challenge. The answer is no. Not all organizations are necessarily designed to stay around forever. In some cases, the organizations are, by nature, temporary, such as an arts organization that is established in response to a specific need. Once the need has been served, the organization has no reason to continue to exist. In addition, an organization that feels its time has come and would rather enter the decline stage than undertake the work necessary to enter the turnaround phase should always have the option to bow out gracefully.

LESSONS LEARNED

- ★ **Organizations undergo the same life cycles, but no two organizations move at the same pace.**
- ★ **A healthy arts organization possesses identity and purpose; strong leadership; excellent programming; effective management of resources; and a strong relationship with the audience and community.**

- ★ **The stages of an organization's life cycle are idea, start up, growth, established, decline, terminal and/or turnaround. Ideally, the organization maintains a cycle between growth and established.**
- ★ **Critical junctures in an organization's life cycle include founder transition; introduction of professional management staff; shared ownership; understanding an economic model; and balancing an economic model with artistic integrity.**
- ★ **Don't be alone in a crisis. Develop allies and solve the problems as a team.**
- ★ **The individual entities in an organization – board of directors, artistic director, founder, and administrative staff – should all be in sync at all stages of the life cycle.**
- ★ **Some types of funding are more conducive to a healthy life cycle than others.**

FACILITIES DEVELOPMENT

JUNE 15, 1999

- ❖ **What** special limitations on income-producing options are faced by groups that do not have their own facilities, such as many folk arts groups?

- ❖ **How** does an organization's utilization of its facilities and/or career planning for new facilities affect its stability and organizational effectiveness?

PANELISTS

TOM BORRUP, executive director of Intermedia Arts Minnesota, one of the leading providers of arts education programs including artist and teacher training, school and community-based residencies, and mentoring programs; chair of the Board of Directors of the Jerome Foundation and past co-chair of the National Alliance for Media Arts and Culture.

CORA CAHAN, president of The New 42nd Street, Inc., a nonprofit organization dedicated to restoring and recreating seven theaters on the historic block between Broadway and Eighth Avenue; co-founder and former executive director of the Feld Ballet.

ADRIAN ELLIS, CEO of AEA Consulting, which specializes in strategic planning in the cultural sector; advisor to a number of funding bodies, including the UK Department of Culture; former executive director of the Conran Foundation, an education charity, where he was responsible for planning and managing the establishment of the Design Museum in London.

SALLY JO FIFER, executive director of the Bay Area Video Coalition (BAVC), a media arts center specializing in access and training on the latest communication technologies for artists and nonprofits.

SUMMARY

The inherent needs of modern artistic endeavors are inextricably tied to the facilities which house or present the arts. An opera company, for instance, needs an opera house with excellent acoustics, and an art museum needs a building with sufficient space to display and preserve its art collection. Also, the arts sector is substantially more asset dependent than virtually every other industry, requiring an average of \$2.70 in assets to earn \$1.00 in revenue. This may explain why the current level of investment in the planning and development of cultural facilities is at an all-time high. The

trend is certainly also driven by rising expectations of consumers and the success of the arts community in integrating a cultural agenda into urban renewal, tourism and civic booster projects.

It would appear that Shakespeare was wrong, at least in this case -- all the world is not a stage. If it were, arts organizations would not be so hard pressed to build or renovate their facilities, nor would they be forced to encounter the “appalling tangles,” in the words of Adrian Ellis, that they face in the development process. After all the complications Ellis has encountered in helping cultural institutions erect facilities, including the Design Museum in London, he marvels that anything gets built at all. In addition to the myriad standard construction hurdles, arts organizations face additional disadvantages, due in part to the following factors:

- The inherent architectural complexity of building type for cultural facilities.
- The reluctance of arts organizations to accept the loss-making nature of physical expansion ventures.
- The high profile of cultural institutions in the community, which tends to politicize the entire process.
- The discrepancy between the legal and organizational structures of nonprofits, in that arts organizations are ill-equipped to deal with common problems that involve risk taking.
- The huge learning curve involved in such an undertaking, considering that most executive directors of arts organizations will only go through this process once or twice in their careers.

These tangles can have a serious negative effect on organizational effectiveness, especially when arts organizations enter the process without sufficient forethought and broad-based planning. A successful facilities development project requires a foundation of three key building blocks. First is the “strategic block”, which is the responsibility of the client and which encompasses a vision of artistic purpose, budget development and management skills. Second is the “physical block”, which encompasses the physical nature of the building, including its architecture, acoustics and visual displays. Rounding out the trio is the “financial block”, which must attend to the laws of economic supply and demand, financial sensitivities of the organization and the long-term revenues and expenses.

In planning such an undertaking, arts organizations are frequently shortsighted, and tend to underestimate costs and overestimate revenues. A theater company, for example, might think it’s just adding more seats, which can increase revenues, without understanding the added long-term costs of maintenance, security and audience development.

No matter how strong the bricks are, without mortar the foundation will still be weak. The mortar to these three building blocks is collaboration and communication between the members at work in each block. What usually happens is that each team works separately outside the context of a unified vision. The design team focuses on the building, not on the market; fund raisers focus on a one-time

money generating event, not on how to sustain the facility over time, and so on. The cracks in this foundation can and should be filled by professional management consultants, who can help articulate an overall strategic foresight.

There are a number of reasons why arts organizations embark upon a facilities project. Currently the impetus behind many new arts buildings is urban renewal. One of the most ambitious urban renewal projects in this country has been the rejuvenation of 42nd Street in New York City. Once a glorious and glittering thoroughfare of entertainment, by the 1990s the street had degraded to a haven for sex shops and drug houses. In 1984, the City and State of New York formed the 42nd Street Development Project to clean up the area and issued a general call for project plans to commercial construction and development companies.

When private developers failed to enact a feasible plan, the Project looked for another way to proceed, without the aid of any precedent. The result, in 1990, was the creation of The New 42nd Street Inc., an independent, nonprofit organization to oversee the redevelopment of seven mid-block theaters and some adjacent buildings. The organization was given the lease on these properties for 99 years and assigned to find appropriate uses and tenants for the buildings, with no further instructions except to ensure that there would be at least two nonprofit organizations operating on 42nd Street.

Armed with start-up money from a contract the Project had negotiated with a commercial developer, The New 42nd Street set sail in a sea of endless possibilities. Although it had no obligation to operate any of the theaters, the organization decided its first undertaking would be to renovate the Victory Theater, previously an adult movie house, into the New Victory Theater, a theater for young people. In addition to filling an empty niche in New York, the establishment of a children's theater fit perfectly with the organization's mission to populate 42nd Street with a variety of diverse venues. The absence of any theaters for young people in New York may have been due to the unique restrictions imposed in catering to children as an audience. For example, ticket prices must be kept low and the theater must depend almost entirely on weekend shows for box office income, especially during the school year. In order to counteract these disadvantages, The New 42nd Street subsidizes the New Victory with rent from commercial tenants in the neighboring buildings.

Cora Cahan, president of The New 42nd Street, remembers the element of risk involved in renovating the New Victory because there was no assurance that anyone else would be willing to move to the street. That all changed when Michael Eisner of The Walt Disney Company approached the organization about leasing the New Amsterdam Theater. In the A.D. (After Disney) period, as Cahan likes to call it, the level of interest in the area increased immediately and all the pieces of the project began to fall into place. Within months of Disney's announcement, Livent came in to take over the Lyric and Apollo Theaters and merged them to create the Ford Center for the Performing Arts. At the same time, Forest City Ratner leased the Liberty and Empire Theaters and the adjacent properties, on which it will build a 25-screen movie complex and Madame Tussaud's Wax Museum. The Selwyn Theater was leased to the Roundabout Theater Company, which will bring a loyal subscription audience to 42nd Street. Livent has also signed a memorandum of understanding to refurbish the Times Square Theater.

In addition to the New Victory Theater, the nonprofit New 42nd Street Studios will be built on 42nd Street, in accordance with project requirements that two nonprofit organizations operate on the street. The building, a work of art in itself (a network of computer-controlled lights will light the building day and night, and an illuminated tube will create a beam of light rising 180 feet above the street), will provide rehearsal studios for nonprofit performing arts groups, a black box theater, and office space for arts organizations, including The New 42nd Street and the Roundabout Theater Company.

The structure that 42nd Street has become is not modeled after any other street in the world, nor is it a replica of any other project. Rather, it has become a unique reflection of the diverse cultures in the surrounding community, and serves as a paradigm for others.

Intermedia Arts Minnesota, a presenter of visual, performance, film and video art that explores the connections between artistic disciplines and between arts and society, is another successful model of the reflective relationship an arts organization can and should have with its community. This particular arts organization took the idea one step further. The Intermedia Arts facility was not only designed for the community, it was designed *by* the community. Formerly the Beeline Brake and Alignment Building, the new Intermedia Arts building is an example of “art in buildings” -- a building that doesn’t just showcase art, it is art itself. Through a project called “Home Works,” Intermedia requested proposals from local artists to design and build 11 different construction projects in the building, including a stairway, desk, kiosk, skylight and table.

Purchased with donations and a mortgage, the new Intermedia Arts building was an exercise in form following function, rather than funding. Since an arts facility, according to Tom Borrup, is a place for the community to gather, the building should be tailored so that people feel comfortable coming to the space. As such, Intermedia’s design was dictated by the needs of the community, rather than financial or architectural issues.

Sometimes arts organizations embark on a new facilities project out of forced necessity. When Sally Jo Fifer and the Bay Area Video Coalition (BVAC) lost its lease, they had 15 months to move. The organization went to the Kresge Foundation and presented a proposal to renovate an old facility. Instead of mentioning that they had just lost their lease, Fifer emphasized that BVAC was a rapidly expanding organization with a unique, much needed niche in the community, providing access to digital video and multimedia equipment to allow patrons to create video arts, web sites, television programs and public service announcements.

With help from Kresge, BVAC finished its new facility on time, but not without encountering several difficulties. For example, the new building manager could not give them the lease without seeing the money, but they could not get the money until they had the lease. BVAC also realized that although they had solid earned income, their funder pool was small, and so they turned to the Cultural Facilities Fund (CFF) for help. CFF provided them with planning workshops, a \$10,000 grant to plan their move and a \$300,000 loan to help them get started. BVAC renovated the old Best Foods mayonnaise plant in San Francisco into a state-of-the-art digital technology studio. Their success has inspired a theme in the new building, and now other multimedia companies are moving

in.

BVAC's newest specialty is a workforce development program. JobLink is the first technology program to receive HUD funding, and the Ford Foundation has asked BVAC to do a study on the results of the program. JobLink is a project-based training program that trains low-income workers to learn high tech skills through hands-on experience with real clients.

LESSONS LEARNED

- ★ **Arts organizations can overcome hurdles in the process of facilities development with serious broad-based planning efforts and collaboration between workers in each of the three building blocks of a facilities project: strategic, financial and physical.**
- ★ **Arts facilities developed as part of urban renewal projects should reflect the diversity and individuality of the community that the project is working to revitalize.**
- ★ **Arts facilities should reflect the needs of the community, and their form should follow function, not funding.**
- ★ **Agencies such as the Cultural Facilities Fund can help arts organizations plan an involuntary move.**

LEADERSHIP DEVELOPMENT AND CAPACITY BUILDING JUNE 21, 1999

- ❖ **What** steps can be taken to help inspire more dynamic leadership and vision among today's arts leaders?
- ❖ **How** important are planning and technical assistance, and at what stage of development can arts organizations gain the maximum benefit from these various approaches?
- ❖ **How** important is convening to the professional development of arts leaders?
- ❖ **What** are the key issues for board development?

PANELISTS

MARIAN GODFREY, senior program director for the Pew Charitable Trusts.

ALLEN GROSSMAN, senior lecturer of business administration at the Harvard Business School's Initiative on Social Enterprise; visiting scholar at the Harvard Graduate School of Education; former president and CEO of Outward Bound USA; co-author of *High Performance Nonprofit Organizations: Managing Upstream for Greater Impact*.

JEAN HORSTMAN, director of MCG Organizational Development Services, a program at Manchester Craftsman's Guild that seeks to partner with nonprofit funders to increase the organizational capacity of effectiveness of their grantees.

EMILY TODD, grant officer at Houston Endowment Inc.; former executive director of DiverseWorks Artspace in Houston and former program director for The Andy Warhol Foundation for the Visual Arts.

SUMMARY

Grants and other means of funding support have always been vital to the sustainability of nonprofit arts organizations, but recent trends in the sector have led to a re-examination of the granting process to make it more conducive to capacity building and leadership development in arts organizations. The current saturation of the market has forced an ever-growing number of nonprofit organizations

to compete for a static pool of funding dollars. Accompanied by the many recent changes in societies, markets, competition and technology, these conditions have created an environment for nonprofit arts organizations in which stability is just as dependent on development of organizational capacities as on financial support. In response to this change in climate, funders and policy makers have developed programs that include components of both strategic grant making and support for organizational capacity building.

Allen Grossman, who works exclusively on the challenges of creating high performing nonprofit organizations, identifies the three types of organizational capacity that nonprofits rely on. Program delivery capacity is the starting point in an arts organization's attempt to effect change, and a time in which organizational functions are not considered as important as staff expertise.

When an organization's emphasis is on this mode, most attention goes to budgeting and project management, which are the basic elements needed to make sure that the organization and program can function. The organization at this stage is little more than a convenient venue where programs are implemented.

As an organization grows and program delivery expands across multiple areas, organizational functions become front burner issues. As it grows, the organization must pay more attention to issues it once handled informally. While program delivery is still critical to effectiveness in the program expansion stage, delivery capacities at this point depend strongly on the organization's ability to provide multiple services and functions on a broad, organizational level.

Most organizations stop at this stage of capacity, but an organization that wants to become more than the sum of its programs must know how to adapt to the changing needs of its clients and community. Adaptive capacity allows an arts organization to adjust its programs and practices so it can deliver the same mission in an ever-changing environment. Funders, nonprofits, researchers and educators have devoted considerable resources to meeting the challenges that arise for building capacity in program delivery or program expansion, but so far there has been little attention paid to adaptive capacity.

Marian Godfrey encountered these organizational development issues in doing research for the design of the Philadelphia Cultural Leadership Program (PCLP) for The Pew Charitable Trusts. From their findings, Pew adopted a new stance on its grant making processes in order to implement the best, not just the easiest or most familiar, ways to support capacity building. Pew learned from experience that traditional grants were not the solution to supporting an arts organization. In fact, the nature of Pew's support to weak arts organizations led many grantees to become too dependent on the funding source.

In general, granting organizations expend a great deal of energy on corrective intervention for organizations that do not demonstrate effective money management, have not assessed their resource base, have ignored board and staff succession issues, have failed to structure staff effectively, or are inattentive to community and client needs. For such organizations, the goal of organizational health is never actually realized through traditional grants.

As a result, The Pew Charitable Trusts has adopted a policy of encouraging and rewarding strength, rather than managing weakness. Evidence of an organization's ability to strengthen its performance is now a condition of entry to the program. Pew utilizes an assessment tool comprised of nine features that are generally present in healthy nonprofit arts organizations:

1. A strong sense of identity and core values.
2. A specific mission that drives the organization and is supported by an identified community.
3. A compelling vision that is continually shared, internally and externally.
4. An informed, accurate organizational memory.
5. A comprehensive appreciation of current realities, internal and external.
6. An active engagement with other cultural and community organizations.
7. A clear sense of direction for the future, built on realistic, empowering goals.
8. Leadership appropriate to the tasks at hand, and capable of motivating others.
9. A comprehensive approach to organizational planning that encompasses the assessment and development of artistic, human and financial resources.

Organizational capacity building programs fall into two categories: technical assistance programs, that focus on building capacity in one or more specific functional areas, and organizational development programs, that focus on advancing the organization as a whole. Technical assistance programs generally involve the introduction of consultants into the organization that help employees build specific skills, most often in financial management, marketing, annual fund raising and capital campaigns. This type of program usually falls under the header of "training." Generic technical assistance is not very useful in developing those aspects of an organization that are inherently a product of the unique characteristics and circumstances of the organization, i.e. artistic vision. Programs that engage an organization's identity and operations on an organizational level tend to produce more substantial, sustained relationships between consultants and organizations that focus on organizational learning and extend the planning process past the point of training.

Jean Horstman tackled this issue as manager of the Community Development Corporation/Arts Resource Initiative (CDC/ARI) for the Manchester Craftsmen's Guild. The program helped CDCs – nonprofit, community-based organizations working to revitalize low-income communities -- to incorporate arts programming into the urban renewal process. Specifically, CDC/ARI's mission was to provide professional training to arts administrators and community development leaders to allow them to effectively integrate the arts into community revitalization projects and develop a capacity for enduring arts programming. The idea for the program arose from what MCG saw as an apparent marked need for sustained interventions in arts organizations.

Each of the CDCs underwent an organizational assessment to identify business, personal and organizational capacities needed to increase potential. These needs were met through a combination of four intervention techniques: technical assistance; consulting; training; and coaching. A comprehensive evaluation of the program revealed that of the four types of intervention, coaching was the most useful, technical assistance was the next most effective, and consulting was the least effective.

In contrast to consulting, which focuses on how to solve a problem, coaching focuses on helping an individual learn and implement what is learned. A new style of coaching was developed for CDC/ARI called “Effectiveness Coaching,” in which two individuals with different skills form a professional relationship whereby information and strategies are passed down from the more knowledgeable to the less knowledgeable individual. The relationship requires responsibility from the coach and a desire to learn from the person being coached.

“Effectiveness Coaching” utilizes the following steps, abbreviated “A.R.T.S.”:

A=Articulate Vision, Assess Reality

R=Recognize Goals, Realize Strategy

T=Test Options, Track Learning

S=Synchronize Resources, Showtime!

The “Effectiveness Coaching” approach to capacity building demonstrates the strong correlation between an organization’s capacities and the strength of its leaders. Coaching builds organizational capacity by building individual capacity. Leadership and capacity development strategies are most effective when the leadership is in a period of growth. Two moments are especially prime for development: first, immediately after a leadership transition, when a leader is new to the job, and second, when the leader has matured in the job and needs revitalization.

True leaders do not bear the full weight of responsibility on their own shoulders. Indeed, the mark of real leadership is not the ability to solve other people’s problems, but the ability to teach others to solve problems for themselves. In a period of adaptive change within an organization, for instance, leaders are able to shift responsibility to the organization’s employees, where it belongs, and empower these employees to use their own collective resources to make the necessary adaptations.

Effective leaders in the nonprofit arts community value the work of artists and their creativity. They remember that artists are at the very center of arts institutions and that their importance outweighs the utilitarian value of art. Leaders of arts organizations should require passion as their main hiring requirement, because an employee who is passionate about their work can be taught anything. The high rate of burnout in the nonprofit world, however, often results in a lack of strong leaders for arts organizations to follow. As simple as it sounds, Emily Todd asserts that the best way to encourage leadership in the arts sector is to reward dynamic leadership with higher salaries.

Grossman emphasizes the importance that the nonprofit board can play in capacity building and leadership development. The board’s primary objectives should be to **find out what matters, act on what matters, organize around what matters, and focus meetings on what matters**. For example, an arts organization’s board must realize that knowing whether and by how much the organization is in the red or the black does not speak entirely to whether the organizations is doing well. Organizational health, for nonprofit arts organizations at least, is determined by standards other than finances. With this understanding, the nonprofit board can be a very effective lever for change.

LESSONS LEARNED

- ★ **Organizational capacity, generally measured in terms of program delivery capacity, program expansion capacity and adaptive capacity, is just as important to the stability of an arts organization as financial support.**
- ★ **Arts grants should reward strength, rather than manage weakness.**
- ★ **For weak organizations, the goal of organizational health is never actually realized through traditional grants.**
- ★ **Organizational capacity building programs fall into two categories: technical assistance programs, that focus on building capacity in one or more specific functional areas, and organizational development programs, that focus on advancing the organization as a whole.**
- ★ **Coaching is much more effective than consulting when helping arts organizations develop leadership and build capacity.**
- ★ **Leadership development is most effective in times of leader transition; true leaders do not solve all the problems, instead they show others how to solve them together.**

CAPITALIZATION AND ORGANIZATION DEVELOPMENT STRATEGIES

JUNE 22, 1999

- ❖ **What** are the guidelines for appropriate asset allocation at different stages of organizational development?
- ❖ **What** is the relative importance of cash reserves and endowments and management or technical assistance? What about operating support?

PANELISTS

G. MICHAEL GEHRET, vice president for marketing and development for the Chicago Symphony Orchestra.

JOHN KREIDLER, senior program executive for arts and humanities at The San Francisco Foundation; former director of administration for the San Francisco Art Institute and former director of the Alameda County Neighborhood Arts Program.

CLARA MILLER, founder and president of the Non-Profit Facilities Fund, which provides financial and advisory services to nonprofit organizations; Presidential appointee to the U.S. Treasury Department's Community Development Advisory Board.

NANCY SASSER, president of National Arts Stabilization, a nonprofit organization that partners with communities to strengthen arts organizations; former assistant director of the Houston Grand Opera during the period of its most rapid growth.

SUMMARY

In his paper titled "Leverage Lost: Evolution in the Nonprofit Arts Ecosystem," John Kriedler describes the series of evolutions beginning with the pre-twentieth century dominance of proprietary arts organizations through the "Ford Era" boom of growing numbers of arts organizations and finally to the reality of the present. In its current phase, the arts ecosystem has entered a dichotomous new age of financial uncertainty, despite a strong economy and relatively stable government support. Characterizing the present as a time when the Ford Era abundance of cheap labor (the dedication of idealistic young personnel, working not for the sake of money, but for the gratification of producing art) and institutional funding are no longer assured, Kriedler recommends that arts organizations recognize and deal with this new reality in creative ways.

For a sector that has depended so heavily on these assets of the Ford Era in the past, some serious financial adjustments are in order for arts organizations to run smoothly into the future. Larger arts organizations have already demonstrated effective financial strategies for increased stabilization, albeit they have not been as affected by these losses as smaller arts organizations, which often rise and fall on the basis of human capital. Another advantage leveraged by heavyweight cultural institutions is the exceptionally high ratio of funding dollars to number of large institutions; the inverse is true for small and medium-sized arts organizations.

Despite their obvious advantages, however, large arts organizations are not always exempt from hardship. For example, in the early 1990s, the Chicago Symphony Orchestra (CSO), one of the nation's most prominent orchestras, felt that it was losing touch with the community, and decided the remedy was a new performing arts center to replace the aging symphony center that had seen few renovations since its opening in 1904. The symphony's trustees, on the other hand, were not convinced of the financial feasibility of this idea and tabled a proposal to build a new center.

The symphony's music director, undeterred by this setback, envisioned a new idea for a symphony center that would draw people in even when there was not a performance. The proposed center would hold under one roof not only a concert hall and opera house, but also retail stores; restaurants; specialized rooms for music education, jazz and family series; and chamber music recital halls.

Under Michael Gehret's direction, the CSO borrowed heavily and mounted an ambitious capital campaign that included bond issues to raise \$110 million for construction of Symphony Center. The CSO conducted two bond issues: proceeds from the first bond issue and campaign were invested and after the second bond issue, enough cash had been raised to pay for the center's construction. At the rate they're headed, the CSO's debt will be fully funded sometime between 2010 and 2015, and any additional income will exceed the interest owed. When the bonds mature in 2030, the CSO could make even more money depending on the fluctuation of interest rates. If, however, the symphony loses the tax-free status of its bonds, the CSO will be forced to go back to the drawing board.

The capital campaign also included outreach operations to solicit money from the community. Gifts received from the campaign are unrestricted and do not have to go to pay down the debt for the building costs. From a list of subscribers and single-ticket buyers, the CSO contacted over 40,000 households in a tele-funding campaign that raised, to everyone's surprise and delight, \$4.5 million. Campaigners were somewhat shocked to receive 31 gifts of \$25,000 or more over the phone. The CSO's blue ribbon committee approached the area's biggest corporations, which donated \$100 million to the CSO and the Lyric Opera. Another \$2.5 million was added to the pot from line-item funding from the state legislature.

The success of the CSO is a great model of capitalization, but it may not be practical for smaller organizations. Due to dissimilarities in financial dynamics, the stabilization of smaller arts organization will require a different strategy. John Kriedler suggests the solution to this problem is to find ways to stabilize the sector as a whole rather than attempt to stabilize each individual arts organization. This will require a funding shift away from these organizations to the sector through

the following methods:

- Build the capacity of intermediary arts organizations that connect the output of artists and small arts organizations to the public; these include presenters, facilities, small presses and book distributors; and media centers.
- Invest in the development of amateur cultural groups that provide employment for artists.
- Build the capacity of fiscal sponsors.
- Establish regional financial management agencies.
- Enhance pathways from higher education into the nonprofit arts sector, including career counseling and student loans.
- Establish recognition awards for veteran artists and administrators.
- Encourage the Bureau of Labor Statistics to conduct a major study of career paths of artists and other workers in the nonprofit arts sector.

Regardless of their size, all organizations should understand the basics of capital. Nancy Sasser defines capital in the following ways: 1) net worth/net assets; 2) money available to invest in an organization's purpose; 3) equity vs. debt. Sasser also explains that there are different types of capital, each of which should represent a different percentage of the organization's focus. First, there is working capital, which represents current liabilities and assets and should constitute 10-30% of an organization's budget. Another type of capital is used for specific purposes or programs, for which funds are earned to be spent. If the various forms of capital are likened to a pyramid, the base of the pyramid is an organization's endowment, which should ideally be 200-500% of an organization's operating expenses. Very few organizations fit this ideal.

Sasser emphasizes, however, that endowments are not appropriate for every organization. Not all arts groups are founded with the intent to become an institution. Some organizations, for example, band together for a temporary need or under an individual founder that may move on or pass away. An exception to this example is the Alvin Ailey Dance Company, which decided to continue its work and become an endowment even after Ailey's death.

As president of National Arts Stabilization, Sasser is very aware of the importance of grants to the stabilization of arts organizations. In particular, she champions the powerful combination of committed grant makers and technical assistance. Grants, however, are not the solution to all arts organizations' problems. Grant makers hold many myths to be true that must be dispelled. A prominent myth is that when money flows into the nonprofit sector, it becomes non-fungible. Another myth is that all grants have a positive effect on an organization.

Clara Miller argues that grants may even set an organization back if it doesn't know how much

money it needs or the exact plans for the money. Lack of money is rarely the root of an organization's problems, although it is usually the first factor to be blamed. What is more likely is that funds are ill-matched, poorly timed or too hard to access. In order to remedy this problem, grant makers should first understand how the areas in which grants can help arts organizations:

- Creativity –arts organizations need financial security to capitalize for risk, failure and intellectual property.
- Charity – arts organizations need help to expand audiences and reach out to under served areas.
- Cohesion/Convention – arts organizations can effectively bring people together across the lines of gender, race, etc. and need large, fixed asset components and large spaces despite small revenues.

